

FINANCIAL STATEMENTS

VILLAGE OF GARDEN

For the year ended February 28, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF GARDEN	County DELTA
Fiscal Year End 2/28/05	Opinion Date 2/6/06	Date Audit Report Submitted to State 7/17/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	REPORT ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS UNDER GAS IS ENCLOSED	
Certified Public Accountant (Firm Name) SCHNEIDER, LARCHE, HAAPALA & CO., PLLC		Telephone Number 906-786-6151	
Street Address 401 LUDINGTON STREET		City ESCANABA	State MI
		Zip 49829	
Authorizing CPA Signature <i>Karen L. Meiers CPA</i>		Printed Name KAREN L. MEIERS	License Number 1101015357

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February 28, 2005

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*Schneider, Larche,
Haapala & Co., PLLC*

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

David P. Pechawer, C.P.A., P.C.

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Bruce D. Dewar, C.P.A.

Karen L. Meiers, C.P.A., P.C.

February 6, 2006

Village Council
Village of Garden
Delta County, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Garden as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund of the Village of Garden as of February 28, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Village of Garden has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of March 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2006, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 27 through 28 are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village's basic financial statements. The accompanying other supplemental information, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schneider, Larche, Haapala & Company, PLLC

Certified Public Accountants

VILLAGE OF GARDEN
MANAGEMENTS DISCUSSION AND ANALYSIS
February 28, 2005

This discussion and analysis of the Village's financial position and activities is presented as of and for the year ended February 28, 2005. The information presented should be read in conjunction with the Village's financial statements that follow.

The discussion and analysis is intended to assist the readers understanding of the financial statements by highlighting summarized financial data, activities, trends and other related information.

ANNUAL REPORT

The Village's annual report consists of three main financial information components as follows:

- Basic financial statements
- Required supplemental information
- Other supplemental information

Basic Financial Statements - The basic financial statements present government - wide financial statements that provide information about the Village's financial condition and activities as a whole. The government - wide financial statements provide data relating to the long-term nature of the Village's operations by reporting all Village assets and liabilities that will provide or require financial resources in the future and the Village's investment in property and equipment.

In addition, the basic financial statements present fund financial statements that provide information about the significant individual funds of the Village. The basic financial statements also include footnote disclosures necessary to provide additional information regarding the basic financial statements and other significant issues regarding the Village's financial position and activity.

Required Supplemental Information - Required supplemental information is not a part of the basic financial statements but is an important part of the annual report. The primary financial information contained herein is budgetary information of the Village's General Fund and other major special revenue funds.

Other Supplemental Information - Other supplemental information provides additional financial information regarding budgetary information not included as required supplemental information.

VILLAGE OF GARDEN

MANAGEMENTS DISCUSSION AND ANALYSIS (Continued) February 28, 2005

FINANCIAL HIGHLIGHTS

Financial highlights discussed below include the following items:

- Adoption of GASB Statement 34
- Government-wide financial information
- Governmental funds financial information
- Business-type funds financial information
- Other information

Adoption Of GASB Statement 34 - This annual report has been prepared in accordance with Governmental Accounting Standards Board Statement 34. The new standard was implemented for the first time in the current year. Information for the year 2004 presented below has been restated to be comparative with 2005.

Government - Wide Financial Information - The following is a comparison of the net assets of the Village as a whole for the years ended February 28, 2005 and 2004:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Cash	\$ 13,121	\$ 32,530	\$ 12,085	\$ 8,418	\$ 25,206	\$ 40,948
Receivables	17,374	18,919	2,584	4,060	19,958	22,979
Prepays	-	3,725	-	-	-	3,725
Internal Balances	(26,725)	15,393	26,725	(15,393)	-	-
Total noncapital assets	\$ 3,770	\$ 70,567	\$ 41,394	(\$ 2,915)	\$ 45,164	\$ 67,652
Capital assets, net	94,761	40,457	1,087,559	1,126,144	1,182,320	1,166,601
Total assets	\$ 98,531	\$ 111,024	\$ 1,128,953	\$ 1,123,229	\$ 1,227,484	\$ 1,234,253
Current liabilities and deferred revenues	\$ 25,529	\$ 33,767	\$ 7,464	\$ 7,538	\$ 32,993	\$ 41,305
Long-term debt	60,777	31,191	175,500	178,500	236,277	209,691
Total liabilities	\$ 86,306	\$ 64,958	\$ 182,964	\$ 186,038	\$ 269,270	\$ 250,996
Net assets:						
Invested in capital assets, net of related debt	\$ 18,298	\$ 9,266	\$ 909,059	\$ 944,644	\$ 927,357	\$ 953,910
Restricted net assets	-	-	12,085	8,418	12,085	8,418
Unrestricted net assets	(6,073)	36,800	24,845	(15,871)	18,772	20,929
Total Net Assets	\$ 12,225	\$ 46,066	\$ 945,989	\$ 937,191	\$ 958,214	\$ 983,257

VILLAGE OF GARDEN

MANAGEMENTS DISCUSSION AND ANALYSIS (Continued) February 28, 2005

Government - Wide Financial Information (Continued)

Significant revenues and expenditures on a government-wide basis are as follows for the year ended February 28, 2005:

Revenues:	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
Program:		<u>%</u>		<u>%</u>
Charges for services	\$ 9,835	11	\$ 37,073	38
Grants and contributions	20,447	23	-	-
General:				
Taxes	25,430	29	-	-
State shared revenue	22,627	25	-	-
Other	8,160	9	13	-
Special items	<u>2,801</u>	<u>3</u>	<u>60,000</u>	<u>62</u>
Total	\$ 89,300	<u>100</u>	\$ 97,086	<u>100</u>
Expenditures:				
Legislative	\$ 3,686	3	\$ -	-
General government	76,733	63	-	-
Public works	32,096	26	-	-
Recreation and culture	1,642	1	-	-
Interest expense	932	-	-	-
Unallocated depreciation	8,052	7	-	-
Water	<u>-</u>	<u>-</u>	<u>88,287</u>	<u>100</u>
Total	\$ <u>123,141</u>	<u>100</u>	\$ <u>88,287</u>	<u>100</u>
Change in Net Assets	(\$ <u>33,841</u>)		\$ <u>8,799</u>	

Revenues reported for the year ended February 28, 2005 included a \$60,000 embezzlement recovery.

Expenditures for the year ended February 28, 2005 were comparable to prior year except for embezzlement losses in the prior year of \$11,752.

Governmental Funds Financial Information - As discussed in the basic financial statements, the basis of presentation and the basis of accounting used in preparing the government-wide and governmental funds financial statements are different. Accordingly, the governmental funds information presented below will differ from the government-wide information presented above.

The fund balances of the governmental funds of the Village decreased by \$40,873.

Cash balances of the governmental funds decreased by \$19,409 to \$13,121.

VILLAGE OF GARDEN

MANAGEMENTS DISCUSSION AND ANALYSIS (Continued)

February 28, 2005

Revenues and expenditures for the year ended February 28, 2005 are as follows:

	<u>2005</u>
Total Revenues	
General fund	\$ 125,147
Other funds	20,447
Total Expenditures	
General fund	154,205
Other funds	<u>32,262</u>
Change in fund balances	(\$ <u>40,873</u>)

The Village prepares and adopts budgets on a cash basis. For the year ended February 28, 2005, in the General Fund, actual revenues were \$68,748 and budgeted revenues were \$83,800 for a variance of \$15,052. This variance was primarily due to budgeting interfund reimbursements as revenue. Actual expenditures were \$154,393 and budgeted expenditures were \$110,726 for a variance of \$43,667. This variance was primarily due to not budgeting for a capital outlay expenditure. In the Major and Local Street funds, actual and budgeted revenues were comparable. Actual and budgeted expenditures were also comparable except for capital outlay expenditures that were not budgeted for, which created a variance of \$3,031 in both funds.

Other Information

Debt Service - In the General Fund the Village made principal payments on long-term debt totaling \$9,022. Total outstanding debt as of February 28, 2005 was \$78,463. The principal and interest debt service requirement for the next fiscal year is \$17,686.

In the Water System Fund, the Village made principal payments of \$3,000. Total outstanding debt as of February 28, 2005 was \$178,500. The principal and interest debt service requirement for the next fiscal year is \$11,925.

Capital Outlay - In the governmental activities funds, the Village purchased equipment totaling \$62,356 during the year. The Village's total investment in property and equipment totaled \$191,157 as of February 28, 2005.

In the Water System Fund, the Village purchased equipment totaling \$600 during the year. The Village's total investment in the Water System, property and equipment totaled \$1,569,053.

Contacting the Village's Management

This financial report is designed to give an overview of the financial condition of the Village of Garden. If you have questions or need additional information, it can be obtained by contacting the Village President.

VILLAGE OF GARDEN

STATEMENT OF NET ASSETS

February 28, 2005

ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash	\$ 13,121	\$ -	\$ 13,121
Due from other governmental units	11,029	-	11,029
Other receivables	6,345	2,584	8,929
Internal balances	<u>(26,725)</u>	<u>26,725</u>	<u>-</u>
TOTAL CURRENT ASSETS	\$ <u>3,770</u>	\$ <u>29,309</u>	\$ <u>33,079</u>
Restricted Assets-Cash	\$ <u>-</u>	\$ <u>12,085</u>	\$ <u>12,085</u>
Capital Assets:			
Buildings, land and improvements	\$ 37,737	\$ 12,455	\$ 50,192
Water system	-	1,525,287	1,525,287
Equipment	106,941	14,000	120,941
Vehicles	46,479	17,311	63,790
Less: accumulated depreciation	<u>(96,396)</u>	<u>(481,494)</u>	<u>(577,890)</u>
NET CAPITAL ASSETS	\$ <u>94,761</u>	\$ <u>1,087,559</u>	\$ <u>1,182,320</u>
TOTAL ASSETS	\$ <u>98,531</u>	\$ <u>1,128,953</u>	\$ <u>1,227,484</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Other accrued liabilities	\$ 2,009	\$ -	\$ 2,009
Accrued interest on long-term debt	-	4,464	4,464
Deferred revenues	5,834	-	5,834
Current portion of long-term obligations	<u>17,686</u>	<u>3,000</u>	<u>20,686</u>
TOTAL CURRENT LIABILITIES	\$ <u>25,529</u>	\$ <u>7,464</u>	\$ <u>32,993</u>
Noncurrent Liabilities:			
Notes payable	\$ 60,777	-	\$ 60,777
Revenue bonds payable	<u>-</u>	<u>175,500</u>	<u>175,500</u>
TOTAL NONCURRENT LIABILITIES	\$ <u>60,777</u>	\$ <u>175,500</u>	\$ <u>236,277</u>
TOTAL LIABILITIES	\$ <u>86,306</u>	\$ <u>182,964</u>	\$ <u>269,270</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 18,298	\$ 909,059	\$ 927,357
Restricted	-	12,085	12,085
Unrestricted (deficit)	<u>(6,073)</u>	<u>24,845</u>	<u>18,772</u>
TOTAL NET ASSETS	\$ <u>12,225</u>	\$ <u>945,989</u>	\$ <u>958,214</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>98,531</u>	\$ <u>1,128,953</u>	\$ <u>1,227,484</u>

See notes to financial statements.

VILLAGE OF GARDEN

STATEMENT OF ACTIVITIES

For the year ended February 28, 2005

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:						
Legislative	\$ 3,686	\$ -	\$ -	\$ (3,686)		\$ (3,686)
General government	76,733	9,835	-	(66,898)		(66,898)
Public works	32,096	-	20,447	(11,649)		(11,649)
Recreation and culture	1,642	-	-	(1,642)		(1,642)
Interest on long-term debt	932	-	-	(932)		(932)
Unallocated depreciation	8,052	-	-	(8,052)		(8,052)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 123,141	\$ 9,835	\$ 20,447	\$ (92,859)		\$ (92,859)
Business-type Activities:						
Water	\$ 88,287	\$ 37,073	\$ -		\$ (51,214)	\$ (51,214)
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 88,287	\$ 37,073	\$ -		\$ (51,214)	\$ (51,214)
General Revenues:						
Property taxes				\$ 25,430	\$ 0	25,430
State shared revenues				22,627	0	22,627
Other - local				8,160	13	8,173
Special Items: Embezzlement recovery				-	60,000	60,000
Insurance proceeds				2,801	0	2,801
TOTAL GENERAL REVENUES AND SPECIAL ITEMS				\$ 59,018	60,013	119,031
Change in net assets				\$ (33,841)	8,799	(25,042)
Net assets - March 1, 2004				46,066	937,190	983,256
Net assets - February 28, 2005				<u>\$ 12,225</u>	<u>945,989</u>	<u>958,214</u>

See notes to financial statements.

VILLAGE OF GARDEN

BALANCE SHEET
GOVERNMENTAL FUNDS

February 28, 2005

	General Fund	Major Street Fund	Local Street Fund	Total
<u>ASSETS</u>				
Cash	\$ 2,331	\$ 5,648	\$ 5,142	\$ 13,121
Accounts receivable	511	-	-	511
Taxes receivable	5,834	-	-	5,834
Due from other governmental units	7,052	2,776	1,201	11,029
Due from other funds	6,833	21,602	-	28,435
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 22,561	\$ 30,026	\$ 6,343	\$ 58,930
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES:</u>				
Due to other funds	\$ 47,396	\$ -	\$ 7,764	\$ 55,160
Other accrued liabilities	2,009	-	-	2,009
Deferred revenues	5,834	-	-	5,834
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 55,239	\$ -	\$ 7,764	\$ 63,003
	<hr/>	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE:</u>				
Reserved	\$ -	\$ -	\$ -	\$ -
Designated	-	-	-	-
Unreserved and undesignated	(32,678)	30,026	(1,421)	(4,073)
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	\$ (32,678)	\$ 30,026	\$ (1,421)	\$ (4,073)
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TOTAL LIABILITIES AND FUND BALANCE	\$ 22,561	\$ 30,026	\$ 6,343	\$ 58,930
	<hr/>	<hr/>	<hr/>	<hr/>

See notes to financial statements.

VILLAGE OF GARDEN

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES**

February 28, 2005

Total fund balances-governmental funds \$ (4,073)

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of net assets	\$ 191,157	
Accumulated depreciation	<u>(96,396)</u>	94,761

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Notes payable	<u>(78,463)</u>
---------------	-----------------

Total net assets-governmental activities \$ 12,225

See notes to financial statements.

VILLAGE OF GARDEN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

GOVERNMENTAL FUNDS

For the year ended February 28, 2005

	General Fund	Major Street Fund	Local Street Fund	Total
<u>REVENUES</u>				
Taxes	\$ 25,430	\$ -	\$ -	\$ 25,430
State sources	22,627	13,154	7,293	43,074
Charges for services	9,835	-	-	9,835
Interest and rentals	6,440	-	-	6,440
Other	4,521	-	-	4,521
TOTAL REVENUES	\$ 68,853	\$ 13,154	\$ 7,293	\$ 89,300
<u>EXPENDITURES</u>				
Legislative	\$ 3,686	\$ -	\$ -	\$ 3,686
General government	76,733	-	-	76,733
Public works	5,896	14,647	11,553	32,096
Recreation and culture	1,642	-	-	1,642
Debt service	9,954	-	-	9,954
Capital outlay	56,294	3,031	3,031	62,356
TOTAL EXPENDITURES	\$ 154,205	\$ 17,678	\$ 14,584	\$ 186,467
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (85,352)	\$ (4,524)	\$ (7,291)	\$ (97,167)
<u>OTHER FINANCING SOURCES (USES)</u>				
Proceeds from notes payable	56,294	-	-	56,294
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (29,058)	\$ (4,524)	\$ (7,291)	\$ (40,873)
Fund Balance, March 1	(3,620)	34,550	5,870	36,800
FUND BALANCE, FEBRUARY 28	\$ (32,678)	\$ 30,026	\$ (1,421)	\$ (4,073)

See notes to financial statements.

VILLAGE OF GARDEN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

For the year ended February 28, 2005

Total net change in fund balance-governmental funds \$ (40,873)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives as depreciation expense. This is the amount by which capital outlay
exceeded depreciation in the current period.

Capital Outlay	\$ 62,356	
Depreciation	<u>8,052</u>	54,304

Governmental funds report the issuance of long-term debt as an other financing source
and the repayment of the principal on long-term debt as an expenditure, while the
statement of activities does not.

Issuance of notes payable in the current period	\$ (56,294)	
Principal payments on notes payable in the current period	<u>9,022</u>	<u>(47,272)</u>

Change in net assets of Governmental Activities \$ (33,841)

See notes to financial statements.

VILLAGE OF GARDEN

STATEMENT OF NET ASSETS BUSINESS-TYPE FUNDS

February 28, 2005

	Water System Fund	Total
<u>ASSETS</u>		
Current Assets:		
Accounts receivable	\$ 2,584	\$ 2,584
TOTAL CURRENT ASSETS	\$ 2,584	\$ 2,584
Other Assets:		
Due from other funds	\$ 43,854	\$ 43,854
Restricted Assets-cash	\$ 12,085	\$ 12,085
Land	\$ 12,455	\$ 12,455
Water system	1,525,287	1,525,287
Vehicles	17,311	17,311
Equipment	14,000	14,000
Less: accumulated depreciation	(481,494)	(481,494)
	\$ 1,087,559	\$ 1,087,559
TOTAL ASSETS	\$ 1,146,082	\$ 1,146,082
<u>LIABILITIES</u>		
Current Liabilities:		
Interest payable	\$ 4,464	\$ 4,464
Due to other funds	17,129	17,129
Current portion of long-term obligations	3,000	3,000
TOTAL CURRENT LIABILITIES	\$ 24,593	\$ 24,593
Long-term obligations:		
Revenue bonds payable	175,500	175,500
TOTAL LIABILITIES	\$ 200,093	\$ 200,093
<u>NET ASSETS</u>		
Invested in capital assets-net of related debt	\$ 909,059	\$ 909,059
Restricted for debt service	12,085	12,085
Unrestricted	24,845	24,845
TOTAL NET ASSETS	\$ 945,989	\$ 945,989

See notes to financial statements

VILLAGE OF GARDEN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BUSINESS -TYPE FUNDS

For the year ended February 28, 2005

	Water System Fund	Total
Operating Revenues:		
Customer charges	\$ 37,073	\$ 37,073
TOTAL OPERATING REVENUES	\$ 37,073	\$ 37,073
Operating Expenses:		
Wages	\$ 12,180	\$ 12,180
Operating supplies	1,305	1,305
Insurance	3,632	3,632
Utilities	4,819	4,819
Fuel	900	900
Repairs	16,189	16,189
Miscellaneous	1,120	1,120
Depreciation	39,185	39,185
TOTAL OPERATING EXPENSES	\$ 79,330	\$ 79,330
Operating Income (Loss)	\$ (42,257)	\$ (42,257)
Nonoperating Revenues (Expenses)		
Interest income	13	13
Embezzlement recovery	60,000	60,000
Interest expense	(8,957)	(8,957)
NET INCOME	\$ 8,799	\$ 8,799
Net assets , March 1	937,190	937,190
Net assets , February 28	<u>\$ 945,989</u>	<u>\$ 945,989</u>

See notes to financial statements

VILLAGE OF GARDEN

STATEMENT OF CASH FLOWS
BUSINESS-TYPE FUNDS

For the year ended February 28, 2005

	Water System Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 38,549	\$ 38,549
Payments to suppliers	(10,083)	(10,083)
Payments to employees	(12,180)	(12,180)
NET CASH FROM OPERATING ACTIVITIES	\$ 16,286	\$ 16,286
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal paid on revenue bonds	\$ (3,000)	\$ (3,000)
Interest paid on revenue bonds	(9,032)	(9,032)
Purchases of capital assets	(600)	(600)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (12,632)	\$ (12,632)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	\$ 13	\$ 13
NET CASH FROM INVESTING ACTIVITIES	\$ 13	\$ 13
NET INCREASE (DECREASE) IN CASH	\$ 3,667	3,667
Cash, March 1	8,418	8,418
Cash, February 28	<u>\$ 12,085</u>	<u>\$ 12,085</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (42,257)	\$ (42,257)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	39,185	39,185
Change in assets and liabilities:		
Accounts receivable	1,476	1,476
Due from other funds	17,882	17,882
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 16,286	\$ 16,286

See notes to financial statements

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Garden have been prepared in accordance with generally accepted accounting principles in the United States of America as applicable to governmental entities. A summary of the significant accounting policies followed in the preparation of the financial statements are presented below.

A) Reporting Entity - The Village of Garden's financial statements present the Village as the primary government. The Township does not have any component units.

B) Basic Financial Statements - The Village's basic financial statements are comprised of the following four components:

- 1) Government-wide financial statements
- 2) Governmental funds financial statements
- 3) Business-type funds financial statements
- 4) Notes to the financial statements

- 1) Government-wide financial statements report information on all of the nonfiduciary activities of the Village. The effect of interfund activity has generally been removed from these statements. Governmental activities normally supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The Statement of Net Assets displays the assets, liabilities and net assets of the Village as a whole. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Program revenues include user fees and grants and contributions restricted for specific operational or capital acquisition purposes. Taxes, unrestricted state grants and other revenues not properly reported as program revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 2) Governmental funds financial statements report on the individual governmental funds of the Village. Major governmental funds are reported on separately.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Significant revenue sources meeting the availability criteria include state shared revenues. Various receivables collected after the period of availability would be recorded as deferred revenues.

Expenditures generally are recorded when a liability is incurred. Expenditures not normally paid from currently available resources are recorded when payment is due. Examples of expenditures recorded when due would include debt service expenditures, expenditures relating to compensated absences, and claims and judgements.

The individual governmental funds are each considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Village's governmental funds can be classified into two specific fund types. The specific fund types, purposes and the actual funds maintained by the Village, are as follows:

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources and transactions not properly or legally accounted for in another of the Village's funds.

Special Revenue Funds - The Village's special revenue funds are used to account for proceeds of specific revenue sources or to finance specific activities as required by law or administration regulations. The following special revenue funds are maintained by the Village:

Major Funds:

- Major Street Fund
- Local Street Fund

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 3) Business-type funds financial statements report proprietary funds that include enterprise funds. The Village's only enterprise fund is its Water System Fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Village's proprietary fund relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the water system. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

- 4) Notes to the financial statements provide information to the reader that is considered critical to the readers understanding of the financial statements and the Village's financial position and activities. The disclosures provide information that generally cannot be determined by a reading of the other sections of the financial statements.

C) Budgets - The Village prepares and adopts budgets on a cash basis. Unexpended appropriations lapse at the end of the fiscal year. The Village's general fund expenditure budget is adopted at the activity level. The Village also adopts special revenue fund budgets, which adopt expenditures at the account level. The Village President is responsible for the preparation and monitoring of the budget. The Village Council is responsible for the approval of the original budgets and any subsequent amendments.

D) Cash - For purposes of the Statement of Cash Flows cash includes restricted cash in the Water System Fund.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) Restricted Assets - Certain bond ordinances require that the Water System fund establish and maintain prescribed cash revenues that can be used only to service outstanding debt and for maintenance, renewal, and replacement.

F) Accounts Receivable - Property taxes and other accounts receivable are shown net of any allowance for amounts that the Township believes will be uncollectible. Amounts due from other governments represent accounts receivable from state governments.

G) Capital Assets - Capital assets, which include property, plant, and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village has elected not to retroactively record the value of infrastructure assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

•	Water system	40 years
•	Buildings and Improvements	10 to 30 years
•	Vehicles	5 to 7 years
•	Equipment	5 to 15 years

Capital assets are recorded as an asset and depreciated for the government-wide financial statements and proprietary fund statements but are not recorded in the governmental fund financial statements. The acquisition of capital assets are reported as an expenditure in the governmental fund financial statements when acquired.

H) Deferred Revenues - Deferred revenues have met the asset recognition criteria but have not met the revenue recognition criteria. Deferred revenues include accounts receivable not received within the availability period of 60 days.

I) Noncurrent Liabilities - Noncurrent liabilities are reported in the government-wide financial statements but are not reported in the governmental funds financial statements. Proceeds from noncurrent liabilities and payments on those liabilities are recorded as other financing sources and debt service expenditures, respectively, in the governmental funds financial statements.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) Net Asset Classifications - In the Government-wide financial statements, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - consists of net assets with constraints on their use that are externally imposed (by creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - all other net assets that do not meet the definition of either of the other two components.

K) Fund Balances - In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation. Designations of fund balance represent tentative management plans that are subject to change.

L) Property Taxes - The Village's annual property tax on real and personal property within the Village is levied on July 1, and is based on taxable valuation of property as of the preceding December 31.

Taxes are generally payable by September 15. Unpaid real property taxes as of February 28 are turned over to the County Treasurer for collection. The County maintains a tax revolving fund which permits the County to pay 100% of the delinquent real taxes within approximately 90 days of their delivery to the County.

The Village generally recognizes property taxes as revenue in the year the taxes are levied. Property taxes not meeting the availability criteria are recorded as deferred revenue in the governmental fund financial statements.

M) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 2 - ADOPTION OF GASB STATEMENT NO. 34

The Government Accounting Standards Board is responsible for establishing generally accepted accounting principles for state and local governments. The Village has adopted a new financial reporting model as of March 1, 2004 as required by GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. In connection with this accounting change, the Village has also changed the basis of accounting used by their governmental funds from the cash to the modified accrual basis. Because this change is occurring with the changes required by GASB No. 34, management has accounted for the change to the modified accrual basis by restating the prior fund balance of their governmental funds, as follows:

Total fund balances of governmental funds, as previously stated	\$ 24,007
Cumulative adjustment to previously stated fund balances of governmental funds due to change in basis of accounting	<u>12,793</u>
Total fund balances of governmental funds, as restated	\$ <u>36,800</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Bond Ordinances - Ordinance 7 provides for reserves to be accumulated out of the Water System revenues. At February 28, 2005 the Village was not in compliance with all reserve requirements. The required and actual reserve balances as of February 28, 2005 are as follows:

	<u>Required Balance</u>	<u>Actual Balance</u>
Operation and Maintenance Fund:		
Reasonable and necessary expenses for the ensuing quarter	\$ 10,036	\$ 2,830
Bond and Interest Redemption Fund	2,944	7,504
Bond Reserve Account	12,000	274
General Purpose Account	77,142	1,279

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Deficit Fund Balances - At February 28, 2005 the following funds had deficit fund balances:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 32,678
Local Street Fund	1,421

NOTE 4 - CASH DEPOSITS

Michigan compiled laws authorize and limit deposits and investments to federally insured financial institutions with offices in the State of Michigan, direct obligations of the United States, certain obligations of the State of Michigan or its' political subdivisions, specific investment grade short-term commercial paper, bankers acceptances of United States banks and mutual funds investing in authorized investment types.

Cash deposits are recorded at cost. At February 28, 2005, the carrying amount of the Village's cash deposits was \$25,206 and the bank balance was \$25,373 which was fully covered by federal deposit insurance.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 5 - CAPITAL ASSETS

The following summarizes capital asset activity for the year ended February 28, 2005:

	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 28, 2005
Governmental Activities:				
Capital assets:				
Buildings and improvements	\$ 37,737	\$ -	\$ -	\$ 37,737
Vehicles	46,479	-	-	46,479
Equipment	<u>44,585</u>	<u>62,356</u>	<u>-</u>	<u>106,941</u>
TOTAL CAPITAL ASSETS	\$ <u>128,801</u>	\$ <u>62,356</u>	\$ <u>-</u>	\$ <u>191,157</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 37,737	\$ -	\$ -	\$ 37,737
Vehicles	14,480	5,485	-	19,965
Equipment	<u>36,127</u>	<u>2,567</u>	<u>-</u>	<u>38,694</u>
TOTAL ACCUMULATED DEPRECIATION	\$ <u>88,344</u>	\$ <u>8,052</u>	\$ <u>-</u>	\$ <u>96,396</u>
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS NET	\$ <u>40,457</u>	\$ <u>54,304</u>	\$ <u>-</u>	\$ <u>94,761</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 12,455	\$ -	\$ -	\$ 12,455
Other capital assets:				
Water systems	1,525,287	-	-	1,525,287
Vehicles	17,311	-	-	17,311
Equipment	<u>13,400</u>	<u>600</u>	<u>-</u>	<u>14,000</u>
TOTAL CAPITAL ASSETS	\$ <u>1,568,453</u>	\$ <u>600</u>	\$ <u>-</u>	\$ <u>1,569,053</u>
Less accumulated depreciation for:				
Water systems	\$ 420,003	\$ 38,132	\$ -	\$ 458,135
Vehicles	17,311	-	-	17,311
Equipment	<u>4,995</u>	<u>1,053</u>	<u>-</u>	<u>6,048</u>
TOTAL ACCUMULATED DEPRECIATION	\$ <u>442,309</u>	\$ <u>39,185</u>	\$ <u>-</u>	\$ <u>481,494</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS NET	\$ <u>1,126,144</u>	(\$ <u>38,585</u>)	\$ <u>-</u>	\$ <u>1,087,559</u>

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 5 - CAPITAL ASSETS (Continued)

For the year ended February 28, 2005, depreciation expense in the amount of \$8,052 for governmental activities was unallocated in the Statement of Activities. The Village determined that it was impracticable to allocate depreciation on the buildings, vehicles, and equipment as they serve multiple functions.

Depreciation expense in the amount of \$39,185 for business-type activities was reflected in the Water System Fund.

NOTE 6 - NONCURRENT LIABILITIES

Noncurrent liabilities in the government-wide financial statements are segregated between amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. They consists of installment notes payable and revenue bonds. A summary of changes in these long-term debt amounts is as follows for the year ended February 28, 2005:

	Balance March 1, <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance February 28, <u>2005</u>
Governmental Activities:				
Installment note payable	\$ 24,589	\$ -	\$ 5,808	\$ 18,781
Installment note payable	6,602	-	2,718	3,884
Installment note payable	<u>-</u>	<u>56,294</u>	<u>496</u>	<u>55,798</u>
TOTAL GOVERNMENTAL ACTIVITIES				
LONG-TERM DEBT	\$ <u>31,191</u>	\$ <u>56,294</u>	\$ <u>9,022</u>	\$ <u>78,463</u>
Business-type Activities:				
Revenue bonds payable	\$ <u>181,500</u>	\$ <u>-</u>	\$ <u>3,000</u>	\$ <u>178,500</u>
TOTAL BUSINESS-TYPE ACTIVITIES				
LONG-TERM DEBT	\$ <u>181,500</u>	\$ <u>-</u>	\$ <u>3,000</u>	\$ <u>178,500</u>

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 6 - NONCURRENT LIABILITIES (Continued)

The installment notes payable are payable to a bank, secured by vehicles and equipment, carry interest rates ranging from 3.85 to 4.35 percent and require monthly payments of \$478, \$218 and \$778. The following summarizes the debt service requirements for the next five years for the notes payable, which includes \$8,575 of interest payments.

Year ended February 28,

2006	\$ 17,686
2007	16,378
2008	15,070
2009	12,234
2010	9,334
Thereafter	<u>16,336</u>

TOTAL \$ 87,038

The revenue bonds payable outstanding as of February 28, 2005, consist of the Water System revenue bonds in the amount of \$178,500 which bear interest at 5%. Principal is due in annual installments ranging from \$3,000 to \$12,000 through the year 2031. Interest is due in semi-annual installments on March 1 and September 1. The Water System revenue bonds are secured by a statutory first lien on the net revenues of the Water System. The following summarizes the debt service requirements for the next five years and thereafter:

Year ended February 28,

2006	\$ 11,925
2007	11,775
2008	11,625
2009	12,475
2010	12,275
Thereafter	<u>270,000</u>

TOTAL \$ 330,075

The above schedule includes \$151,575 of interest payments.

VILLAGE OF GARDEN

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 7 - INTERFUND BALANCES

Interfund balances as of February 28, 2005 consist of the following:

<u>Fund</u>	<u>Due From</u>	<u>Fund</u>	<u>Due To</u>
General Fund	\$ 6,833	General Fund	\$ 47,396
Major Street Fund	21,603	Local Street Fund	7,764
Water System Fund	<u>43,854</u>	Water System Fund	<u>17,130</u>
TOTAL	\$ <u>72,290</u>		\$ <u>72,290</u>

NOTE 8 - RISK MANAGEMENT

The Village is exposed to various risk of loss related to torts, theft, accident, errors, omissions, injury and disaster. The Village's principal resource used to manage these risks is through the purchase of commercial property and liability insurance policies.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF GARDEN

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - MAJOR STREET FUND, LOCAL STREET FUND - CASH BASIS

For the year ended February 28, 2005

	General Fund				Major Street Fund				Local Street Fund			
	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES												
Taxes	\$ 26,000	\$ 26,000	\$ 25,430	\$ (570)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	24,000	24,000	22,177	(1,823)	15,000	15,000	14,683	(317)	11,000	11,000	7,309	(3,691)
Charges for services	8,600	8,600	10,180	1,580	-	-	-	-	-	-	-	-
Interest and rentals	6,500	6,500	6,440	(60)	-	-	-	-	-	-	-	-
Other	18,700	18,700	4,521	(14,179)	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 83,800	\$ 83,800	\$ 68,748	\$ (15,052)	\$ 15,000	\$ 15,000	\$ 14,683	\$ (317)	\$ 11,000	\$ 11,000	\$ 7,309	\$ (3,691)
EXPENDITURES												
Legislative	\$ 8,500	\$ 8,500	\$ 3,686	\$ 4,814	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General government	88,826	88,826	76,921	11,905	-	-	-	-	-	-	-	-
Public works	2,900	2,900	5,896	(2,996)	15,000	15,000	14,647	353	10,200	10,200	11,553	(1,353)
Recreation and culture	-	-	1,642	(1,642)	-	-	-	-	-	-	-	-
Debt service	9,000	9,000	9,954	(954)	-	-	-	-	-	-	-	-
Capital outlay	1,500	1,500	56,294	(54,794)	-	-	3,031	(3,031)	-	-	3,031	(3,031)
TOTAL EXPENDITURES	\$ 110,726	\$ 110,726	\$ 154,393	\$ (43,667)	\$ 15,000	\$ 15,000	\$ 17,678	\$ (2,678)	\$ 10,200	\$ 10,200	\$ 14,584	\$ (4,384)
EXCESS OF REVENUES OVER (UNDER)	\$ (26,926)	\$ (26,926)	\$ (85,645)	\$ (58,719)	\$ 30,000	\$ -	\$ (2,995)	\$ (2,995)	\$ 800	\$ 800	\$ (7,275)	\$ (8,075)
OTHER FINANCING SOURCES (USES)												
Proceeds from notes payable	-	-	56,294	56,294	-	-	-	-	-	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER)	\$ (26,926)	\$ (26,926)	\$ (29,351)	\$ (2,425)	\$ 30,000	\$ -	\$ (2,995)	\$ (2,995)	\$ 800	\$ 800	\$ (7,275)	\$ (8,075)
FUND BALANCE, MARCH 1	(10,890)	(10,890)	(10,890)	-	30,245	30,245	30,245	-	4,652	4,652	4,652	-
FUND BALANCE, FEBRUARY 28	\$ (37,816)	\$ (37,816)	\$ (40,241)	\$ (2,425)	\$ 60,245	\$ 30,245	\$ 27,250	\$ (2,995)	\$ 5,452	\$ 5,452	\$ (2,623)	\$ (8,075)

See notes to required supplemental information

VILLAGE OF GARDEN

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

February 28, 2005

BUDGETARY INFORMATION

The Village prepares annual budgets on a cash basis. A reconciliation of revenues and expenditures between the modified accrual basis of accounting used in the preparation of the governmental funds financial statements and the cash basis of accounting used for budgetary reporting is as follows:

	<u>General Fund</u>		<u>Major Street Fund</u>		<u>Local Street Fund</u>	
	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues</u>	<u>Expenditures</u>
Amounts reported on modified accrual basis	\$ 125,147	\$ 154,205	\$ 13,154	\$ 17,678	\$ 7,293	\$ 14,584
Cash basis adjustments:						
Current year change in accounts receivable	(105)	-	1,529	-	16	-
Current year change in accounts payable/prepays	-	188	-	-	-	-
Cash basis amounts	<u>\$ 125,042</u>	<u>\$ 154,393</u>	<u>\$ 14,683</u>	<u>\$ 17,678</u>	<u>\$ 7,309</u>	<u>\$ 14,584</u>

EXCESS EXPENDITURES

Excess of Expenditures Over Appropriations - Public Act 2 of 1968, as amended by Public Act 621 of 1978, prohibits local governments in Michigan from incurring expenditures in excess of appropriations adopted by the governing body. The following amounts of excess expenditures were incurred by the Village during the current year:

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Excess</u>
General Fund:			
Village President	\$ 300	\$ 1,090	\$ 790
Interest and penalties	-	14,577	14,577
Capital outlay	1,500	56,294	54,794
Street lights	2,900	5,896	2,996
Debt service	9,000	9,954	954
Recreation and culture	-	1,642	1,642
Major Street Fund:			
Insurance	2,500	3,029	529
Capital outlay	-	3,031	3,031
Repairs and maintenance	750	2,531	1,781
Equipment rental	4,000	4,292	292
Miscellaneous	500	1,466	966
Local Street Funds:			
Repairs	1,000	4,708	3,708
Capital outlay	-	3,031	3,031
Insurance	1,950	2,785	835
Equipment rental	2,000	2,146	146

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF GARDEN

GENERAL FUND BUDGETARY COMPARISON SCHEDULE - CASH BASIS

For the year ended February 28, 2005

	<u>Budget</u>	<u>Actual</u>	Variance- Favorable (Unfavorable)
Property Taxes:			
Current	\$ 18,000	\$ 19,497	\$ 1,497
Delinquent	8,000	5,933	(2,067)
State Sources:			
Revenue sharing	24,000	22,177	(1,823)
Charges for Services:			
Garbage collection	8,600	10,180	1,580
Equipment rentals	6,500	6,438	(62)
Other:			
Insurance proceeds	-	2,801	2,801
Miscellaneous	1,500	1,720	220
Interest earnings	-	2	2
Interfund reimbursements	<u>17,200</u>	<u>-</u>	(<u>17,200</u>)
	\$ <u>83,800</u>	\$ <u>68,748</u>	(\$ <u>15,052</u>)

VILLAGE OF GARDEN

SCHEDULE OF GENERAL FUND EXPENDITURES PAID -
BY ACTIVITY AND ACCOUNT

For the year ended February 28, 2005

Village Council

Board fees	\$ 2,070
Dues and administrative expenses	<u>526</u>

\$ 2,596

Village President

Salary	\$ <u>1,090</u>
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Village Clerk

Salary	\$ 3,885
Bond	487
Travel	97
Other	<u>175</u>

\$ 4,644

Village Treasurer

Salary	\$ 4,245
Bond	272
Travel	416
Miscellaneous	<u>6</u>

\$ 4,939

Election

Salary	\$ 317
Supplies	198
Printing	<u>256</u>

\$ 771

Village Hall

Wages	\$ 21,238
Contract labor	1,598
Supplies	760
Utilities	5,011
Repairs	1,952
Miscellaneous	<u>559</u>

\$ 31,118

VILLAGE OF GARDEN

SCHEDULE OF GENERAL FUND EXPENDITURES PAID -
BY ACTIVITY AND ACCOUNT

For the year ended February 28, 2005

<u>Equipment Maintenance</u>	
Supplies	\$ 431
Gas and oil supplies	3,712
Repairs and maintenance	5,306
Miscellaneous	<u>48</u>
	\$ <u>9,497</u>
<u>Street Lightings</u>	
Electricity	\$ <u>5,896</u>
<u>Insurance</u>	\$ <u>7,583</u>
<u>Payroll Taxes</u>	\$ <u>2,487</u>
<u>Miscellaneous</u>	\$ <u>1,305</u>
<u>Interest and penalties</u>	\$ <u>14,577</u>
<u>Cultural</u>	
Historical Society	\$ <u>1,000</u>
<u>Recreation</u>	
Supplies	\$ 467
Utilities	121
Bank Charges	<u>54</u>
	\$ <u>642</u>
<u>Debt Service</u>	
Principal	\$ 9,022
Interest	<u>932</u>
	\$ <u>9,954</u>
<u>Capital Outlay</u>	\$ <u>56,294</u>
TOTAL EXPENDITURES	\$ <u>154,393</u>



*Schneider, Larche,
Haapala & Co., PLLC*

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& CONSULTANTS**

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Denise M. Boyle, C.P.A., P.C.

Bruce D. Dewar, C.P.A.

Karen L. Meiers, C.P.A., P.C.

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DEPT. OF TREASURY

JUL 20 2006

LOCAL AUDIT & FINANCE DIV.

February 6, 2006

To the Village Council
Village of Garden
Garden, Michigan

In planning and performing our audit of the financial statements of the Village of Garden, Michigan for the year ended February 28, 2005, we considered the Village's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our recommendations and comments are presented to assist the Village in adhering to State accounting and budgeting requirements and to strengthen internal controls. The memorandum that accompanies this letter summarizes our recommendations and comments regarding those matters. A separate report dated February 6, 2006 contains our report on reportable conditions in the Village's internal control.

We will be pleased to discuss these recommendations and comments in further detail at your convenience. We appreciate the assistance provided to us by the Village officials and look forward to working with them in the future.

Schneider, Larche, Haapala & Company, PLLC

Certified Public Accountants

SEGREGATION OF DUTIES AND ACCOUNTING PROCEDURES

Due to the limited number of Village officials, the Village is limited as to the extent to which it can segregate the duties of officials involved in the cash receipt, cash disbursement and recording of transaction functions. Officials perform duties in which they have access to both physical assets and the related accounting records. We recommend that the Village carefully review the Michigan Department of Treasury's Uniform Accounting Procedures Manual, which provides guidance and procedures for implementing as much segregation of duties as possible.

CONTROLS OVER ACCOUNTS RECEIVABLE

The Village is not performing a monthly reconciliation of accounts receivable for water and garbage charges. Individual customer account records are maintained showing individual billing and cash payments, but a control summary is not maintained and reconciled to the total of the individual account records. We noted that in some months we could not find all the individual account billings/cash payments statements. These account statements should be prepared for all customers. In addition, without preparation of a monthly summary and reconciliation, errors in posting of billings and cash receipts to individual account records would not be detected. We strongly recommend that the Village prepare a summary of the accounts receivable and reconcile the individual account records to this summary on a monthly basis.

PAYMENT OF WAGES

The Village periodically makes payment for services performed by individuals who are not full-time Village employees or officials. These payments should be included as wages with appropriate taxes withheld and paid unless these payments are to individuals deemed to be "independent contractors" as determined by Internal Revenue Service regulations. The Village should review its procedures relating to these payments to insure it is complying with federal and state regulations.

MODIFIED ACCRUAL/ACCRUAL BASIS OF ACCOUNTING

The Village is considering purchasing a new computer and accounting software. Under GASB Statement No. 34, the financial statements of the Village must now be prepared on the modified accrual basis for its governmental type funds and the accrual basis for the Water System fund. We recommend that the garbage accounts receivable and water accounts receivable be set up into the chart of accounts and accounted for within the accounting software. This will improve internal controls and also will provide better monthly reporting to the Village Council and make fewer audit adjustments necessary.

BUDGET PROCEDURES

During our review of the Village's budget procedures the following matters were noted:

- The Village has not incorporated its recreation account expenditures in its annual budget. In addition, a capital outlay expenditure that was financed by a note payable was not budgeted.
- The Village's budget for the year ended February 28, 2005 did not include the beginning and ending fund balance as required by the Uniform Budget Act of the State of Michigan.
- The Village budgets as revenue, interfund reimbursements for disbursements originally paid out of the General Fund, rather than budgeting the net expenditures as General Fund expenditures.
- The Village had several instances of excess expenditures over budget.

We recommend that the Village revise its procedures to insure that beginning and ending fund balance data is included in the annual budgets as required by the State. We recommend that the Village budget the reimbursements against the expenditures so that only the net expenditures are included in the General Fund budget and that all activities of the Village are budgeted for when the Village finances a capital outlay expenditure with a note, the expenditure should be budgeted for and the note payable included in the revenue budget. Additionally, the Village needs to monitor its budgets periodically during the year to insure proper control of expenditures. Budget amendments should be adopted prior to expenditures.



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October 19, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

To the Village Council
Village of Garden, Michigan

We have audited the combined financial statements of the Village of Garden, Michigan, as of and for the year ended February 28, 2004, and have issued our report thereon dated October 19, 2005. In our report, our opinion was qualified because the Village did not include the General Fixed Asset Account Group in their combined financial statements and did not capitalize and depreciate enterprise fund property and equipment acquired prior to March 1, 1979 or record contributions in aid of construction attributable to such acquisitions. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Garden's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under "Government Auditing Standards" and are described in the following paragraph.

Fraud and illegal acts were committed by a management level Village official who embezzled funds from the Village's cash accounts. In addition, payroll taxes were not deposited or deposited late, and payroll tax returns were not filed with the appropriate agencies.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Garden's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village of Garden's ability to record, process, summarize and report financial data consistent with the assertions of management in the combined financial statements and are described in the following paragraphs.

Due to the limited number of Village officials, the Village is limited as to the extent to which it can segregate the duties of officials involved in the cash receipt, cash disbursement and recording of cash transaction functions. Officials perform duties in which they have access to both physical assets and the related accounting records.

The Village is not performing a monthly reconciliation of accounts receivable for water and garbage charges. Individual customer account records are maintained showing individual billing and cash payments, but a control summary is not maintained and reconciled to the total of the individual account records. Without preparation of a monthly summary and reconciliation, errors in posting of billings and cash receipts to individual account records would not be detected.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered to be material weaknesses.

This report is intended for the information of the Village Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Larcke, Haapala & Company, P.C.

Certified Public Accountants



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February 6, 2006

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

To the Village Council
Village of Garden, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Garden, Michigan, as of and for the year ended February 28, 2005 which collectively comprise the Village of Garden's basic financial statements and have issued our report thereon dated February 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Garden's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village of Garden's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements and are described in the following paragraphs.

Due to the limited number of Village officials, the Village is limited as to the extent to which it can segregate the duties of officials involved in the cash receipt, cash disbursement and recording of cash transaction functions. Officials perform duties in which they have access to both physical assets and the related accounting records.

The Village is not performing a monthly reconciliation of accounts receivable for water and garbage charges. Individual customer account records are maintained showing individual billing and cash payments, but a control summary is not maintained and reconciled to the total of the individual account records. Without preparation of a monthly summary and reconciliation, errors in posting of billings and cash receipts to individual account records would not be detected.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described above are considered to be material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Village of Garden in a separate letter dated February 6, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Garden's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under "Government Auditing Standards".

This report is intended for the information of the Village Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Larche, Haapala, & Company, PLLC

Certified Public Accountants